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Washington, D.C. 20503

10 FEB 1978

Honorable James T. McIntyre, Acting Director
Office of Management and Budget
Washington, D.C. 20503

Dear Mr. McIntyre:

During the past three years the Department of the Treasury and the House Ways and Means Committee have considered several proposals to amend or repeal Section 912 of the Internal Revenue Code. This statute provides that allowances paid to Government employees overseas are not taxable income to them, and revision would mean that each employee would be immediately faced with a substantial reduction in spendable income as a result of increased taxes. The House Ways and Means Committee has now announced that there will be hearings on this legislation before the end of the month, and we are once again faced with the possibility that this very fundamental entitlement of Government employees may be curtailed or cancelled. This would have very serious implications for all agencies and with employees overseas, because our employees are already coping with severe inflationary spirals in the foreign countries, and the imposition of additional financial burdens would mean that employees may well conclude that their own best interests would require that they avoid foreign service.

There are a number of reasons why we feel that a revision of the law would be a mistake, and we are prepared to document these in as much detail as necessary. Basically, however, they fall into three categories:

First, the burden of the change would be borne by employees, particularly those in the lower grades, and it would then be extremely difficult to

persuade employees to accept overseas obligations. Further, the short-term impact on complements abroad could be devastating, both to morale and to willingness of employees to stay abroad.

Second, there seems to be an assumption that, if Section 912 is rescinded, the other committees of Congress will increase the allowances to help offset some of the taxes the employees will pay. We have found some support and some opposition on the Hill on this proposal.

And, finally, the requirement to report all of these expenditures in the separate pay accounts of the thousands of employees, and otherwise facilitating enforcement of the new law by the Internal Revenue Service, would result in an enormously increased administrative workload. We believe, in fact, that the additional funds required to offset some of this tax burden and the increased workload would nullify any benefit the Government might otherwise realize as a result of increased revenue from the employee.

The Interagency Committee on Overseas Allowances and Benefits, which represents the twenty agencies with personnel in foreign areas, has conducted an exhaustive study of this subject and unanimously recommended that the tax exclusions authorized in Section 912 not be rescinded. This study concludes that these changes would not be in the best interests of either the Government or the employees, and this Agency concurs fully in those findings. The Committee has documented the fact that the allowances are almost entirely reimbursement for expenses which would not be encountered by employees who are not assigned abroad. The exception is the housing allowance, which does include a benefit which is unique to service abroad, but which we regard as absolutely essential for recruitment and incentive purposes. If it should be determined as a matter of U.S. Government policy that cost-free housing is no longer to be given to employees, we believe the solution should be found in administrative action such as charging rent

for housing furnished by the Government rather than subjecting the housing allowance to taxation. The tax proposal would in effect convert what is now a standardized allowance into a system imposing uneven costs in accordance with each individual's tax circumstance. The suggested tax reforms would, in effect, place every employee in a foreign country in the position of having to negotiate his housing costs with the Internal Revenue Service. We reiterate that any change which significantly reduces the income of employees overseas will have a devastating effect on morale and will make it very difficult to staff overseas positions.

I sincerely urge that these facts be given careful considerations. Our overseas operations will be vitally affected if key employees conclude that the financial hardships associated with service abroad make it impossible for them to accept overseas assignments.

Yours sincerely,

SIGNS:

STANSFIELD TURNER

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